



COMMONWEALTH AUTOMOBILE REINSURERS

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RECORDS OF MEETING

CLAIMS ADVISORY ADALB SUBCOMMITTEE

A meeting of the Claims Advisory ADALB Subcommittee was held at the offices of Commonwealth Automobile Reinsurers, 100 Summer Street, Boston on

WEDNESDAY, MARCH 27, 2002 AT 10:00 A.M.

Members present -

Mr. Robert D. Woods Jr. – Chairman
Encompass Insurance

Mr. David Antocci
Mr. James Doherty
Ms. Kris Gould *
Mr. Timothy Kearney
Mr. Frank DeSario **
Mr. Gary Sundstrom ***

The Commerce Insurance Company
Doherty Insurance Agency, Inc.
Sentry Insurance A Mutual Company
The Premier Insurance Co. of Mass.
Safety Insurance Company
The Hanover Insurance Company

* Substitution for Mr. Ciro Fei
** Substitution for Mr. David Krupa
*** Substitution for Mr. Francis Delage

Commonwealth Automobile Reinsurers present -

Ms. Valerie B. Gedziun
Mr. Robert Bell
Mr. John Lapprime
Mr. Anthony Keegan
Mr. Peter Bertoni
Ms. Suzanne Riddle

Vice President – Claims
Senior Claims Manager
Senior Claims Examiner
Claims Examiner
Claims Examiner
Claims Analyst

Also present –

Mr. David Barlett	The Premier Insurance Co. of Mass.
Mr. Edward Clemens	Sentry Insurance a Mutual Company
Mr. Thomas Colo	Advanced Auto Body
Mr. William A. Delaney	NAII – USAA
Mr. Brian Duffy	Keystone Automotive Industries
Mr. Scott Edwards	Eric Veng Inc.
Mr. Jim Francis	Keystone Automotive Industries
Mr. Jack Gillis	C.A.P.A.
Mr. Charles Gregory	Holyoke Mutual Insurance
Mr. Robert Huins	NAII
Mr. Denis LaFleur	The Commerce Insurance Company
Mr. Kevin McCarron	Arbella Mutual Insurance Company
Mr. John McKenna	Arbella Mutual Insurance Company
Mr. Michael Moran	Liberty Mutual Group
Mr. Evangelos Papageorg	EXP Consulting
Ms. Joyce Richards	Amica Mutual Insurance Company
Mr. Steven Rusconi	Liberty Mutual Group
Ms. Eileen Sottile	Keystone Automotive Industries
Mr. Donald Spinelli	OneBeacon Insurance
Mr. Charles Sulkala	Acme Body and Paint
Mr. Steven Veiga	Division of Insurance
Mr. Gary West	Amica Mutual Insurance Company
Mr. Thomas Zicko	OneBeacon Insurance
Mr. Jerry Zimmerman	NAII
Mr. William Zukas	OneBeacon Insurance

Claims Advisory ADALB Subcommittee Chairman, Mr. Robert Woods Jr., called the meeting to order at 10:05 a.m.

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02.01 Records of Previous Meeting

A motion was made by Mr. Doherty and seconded by Ms. Gould to approve the Records of the Claims Advisory ADALB Subcommittee meeting of January 15, 2002, as written

The motion passed on a unanimous vote.

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02.02 ADALB Subcommittee

Mr. Woods thanked members of the Subcommittee and representatives from the aftermarket parts industry for attending the meeting. Representatives of the aftermarket parts industry were Mr. Jack Gillis from CAPA, Mr. Scott Edwards from Eric Veng Inc, Ms. Eileen Sottile and Mr. Jim Francis from Keystone Automotive Industries. Mr. Woods said Ms. Karen Fierst, consultant to the Taiwan Auto Body Parts Association, would not be able to attend this meeting. She had, however, provide a proposal titled “Best Practices” for discussion.

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02.02 ADALB Subcommittee (continued)

Mr. Woods said the Best Practices Proposal came about when the California Auto Body Association undertook a study to address issues pertaining to aftermarket parts. The Best Practices are a result of the combined efforts of the repair industry, the insurance industry, and insurance regulators. Ultimately, the Best Practices Proposal was not accepted by all parties in California but some of the points in the proposal were worth discussing. Some of these issues raised in the proposal will be discussed as well as ways to improve the acceptance of aftermarket parts in Massachusetts.

Mr. Woods reviewed Massachusetts Regulations 211 and 212 as they relate to the use of aftermarket parts. The reason these Regulations were read was because both refer to the use of aftermarket parts. There is a requirement that appraisers, where appropriate, use aftermarket parts.

At the January 15, 2002 meeting of the ADALB Subcommittee a number of topics relating to aftermarket parts were discussed. Mr. Woods reviewed the topics which were:

- Testing and Quality Control
- Warranty on Parts
- Labor allowances on parts that do not fit properly
- Return of parts that have never been delivered
- Ways to work with vendors to solve available parts problems
- Fitness of Parts – Costs: storage and rental
 - Expenses incurred by both sides and the need to involve aftermarket suppliers
 - Sign-off by suppliers to reduce shop's waiting time
 - Develop consistency of methods to verify if parts fit or not
- Return rate – customer service if the part does not fit. Ways to verify problems
 - Problem part alerts
- Data sharing on part returns and complaints

Mr. Gillis from CAPA said he has had discussions with repairers on quality control and the return of parts. He asked what an acceptable return rate is and if there is some original equipment manufacturers benchmark that the aftermarket parts industry can be compared to. Mr. Edwards said he was not aware of any published OEM return percentage. He said the aftermarket return percentages, which would include everything from parts returned because the vehicles were totaled to incorrectly ordered parts, probably runs from 12% to 15%. Ms. Sottile added that the percentage of returns for defective parts is around 3.5%.

Mr. Gillis said that with a program like CAPA which certifies quality aftermarket parts, at least there is some accountability that the product is going to meet the needs of collision repairers.

Mr. Woods asked why there were not more certified CAPA parts? Mr. Gillis explained that in the total market of certifiable parts, and these do not include the parts that there are no standards for, such as lights and bumpers, only 3 % of those parts are CAPA certified. He said one reason is that a part cannot be certified unless a standard can be established or unless a part from a car manufacturer is of sufficient quality to be used as a standard. He added that inspectors were constantly inspecting the quality of aftermarket parts and if an inspection reveals a part does not meet CAPA's standards it is rejected from certification. He also said that to comply with CAPA standards, the cost to the manufacturer is \$50,000

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02.02 ADALB Subcommittee (continued)

to \$150,000 per part. As a result, parts are still being manufactured but they are not manufactured with CAPA compliance in mind.

Ms. Sottile mentioned that it is in the best interest of Keystone, Veng, and the industry to supply the best possible parts. Returned parts may cost between \$25 - \$30. Keystone strives to buy as many CAPA certified parts as are available, but the supply and demand is key. If the body shops or collision repair centers are calling and not asking for CAPA they will be sent non-certified parts to make sure certified parts are available to those who require them. At the same time, aftermarket parts dealers are setting the standard for the rest of the industry by demanding high quality parts from manufacturers and buying as much CAPA as possible. Keystone also created their own brand name – called Platinum Plus and have backed the parts with superior warranties.

Mr. Edwards said it has always been his philosophy to purchase the best quality product at the best possible price. The idea of buying the lowest cost product is not a philosophy that Veng has ever had. Because Veng is a manufacturer and understands the manufacturing process, they have also built software, which helps track return percentages of parts in the marketplace. He pointed out that there are return forms and customers are asked to comment specifically on any problems. Veng will then follow up to the point where they will either try to find another manufacturer or pull the part completely off the shelf if it is not working. He stated that in the past five years there has been a significant consolidation among manufacturers in the aftermarket parts industry. As a result, higher quality products are being produced. The technology that they are using is geared to QS9000 – which is a certification process that the big car makers require of their own tier one suppliers. Also, many car manufacturers are looking to produce car company parts as well, possibly through joint ventures with OEM manufacturers, whether domestic or Japanese.

Mr. Gillis said CAPA has a rigorous complaint program. In the last six years, shops have used 15.6 million CAPA certified parts and complaints have been filed on less than 5/100 of 1 percent of those parts. He did say CAPA has been criticized for not making it as easy as possible for complaints to be filed. A system has now been devised where 70,000 to 80,000 complaint forms a year are sent out. Also complaints can be filed on CAPA's Internet site. In spite of this, Mr. Gillis said CAPA is aware that some shops are having problems with CAPA certified parts but they do not have the time to report the problems.

Many body shops complete surveys conducted by collision repair associations. Generally speaking, 50% to 75%, and sometimes 90% of the respondents report that aftermarket parts do not fit. Mr. Gillis said this is a major discrepancy when some reports mention a 2.5% return rate but 90% of the people in a survey situation say that the parts do not work.

The Subcommittee reviewed the Inter-Industry Ideal Parts Transaction - Proposed Best Practices.

Mr. Woods opened up the floor to questions for the panel. The first speaker was Charles Sulkala from Acme Body & Paint. He said Acme Body and Paint does send back the on-line questions to CAPA and notifies them of returns. Acme Body and Paint has been conducting its own testing using different parts due to the wide range of return rates alleged by the aftermarket parts industry, the insurance industry and the automobile repair industry. He said if there is an 18% return rate, there is a problem with the part. He asked if parts are being returned, has anyone ever considered doing a test fit themselves with those parts on a vehicle?

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02.02 ADALB Subcommittee (continued)

Mr. Regan of the Massachusetts Auto Body Association said the ongoing issue with the ADALB is who is responsible for the cost of the return and the labor that goes into trying to fit a poor quality part. Mr. Regan requested that this topic be discussed by the ADALB Subcommittee and put in writing to the ADALB. He said the Mass Auto Body Association would be willing to work with any type of inter-agency working groups to improve this situation. He stated when an aftermarket part is returned a replacement part is virtually never substituted for that part. It is his understanding that either a part price increase is granted or the part is replaced with an OEM. He also said there is some recognition amongst suppliers and perhaps some manufacturers that not just 2% of the parts are bad. The question is, why a replacement part is not simply provided if the original part does not fit?

Ms. Sottile answered saying the adjustment he is questioning may be a matter of insurance company procedure.

Mr. Kenyon, a member of the Auto Damage Appraisers Licensing Board thanked Mr. Woods and the Subcommittee for holding this meeting. He said it is very helpful in supporting the activities of the ADALB. Mr. Kenyon stated that Commissioner Ruthardt charged the Board with coming up with a report on the aftermarket parts issue. Hearings were held and a majority report and a minority report were written. This issue was controversial and he asked the Subcommittee to take a look at these reports that were submitted to the Commissioner. The Board's charge was to comment on the availability and safety of aftermarket parts. Mr. Woods said the reports were reviewed by each company individually. Mr. Kenyon said it would be very helpful to the Board to have the minutes of the Subcommittee meetings available so the Board could see what issues are being addressed. The ability of the various industries to work together is going to be crucial.

Ms. Gedziun mentioned that the minutes of any of CAR committees are on the CAR Website as soon as they become available. The website is www.commauto.com.

Ms. Gedziun thanked the guests for coming and for taking the time to meet with the Subcommittee. She said these individuals will also be participating in the CAR Cost Containment Seminar, which will be held on May 14 and May 23, 2002.

It was the consensus of the Subcommittee that the discussion on the aftermarket parts issue with members of the repair industry and aftermarket parts industry was valuable and these communications should continue.

There being no further business, a motion was made by Ms. Gould and duly seconded by Mr. Antocci to adjourn the meeting.

The motion passed on a unanimous vote.

The meeting adjourned at 12:20 p.m.

ROBERT BELL
Senior Claims Manager

Boston, Massachusetts
March 29, 2002

Note: These Records have not been approved. They will be considered for approval at the next Claims Advisory ADALB Subcommittee meeting.